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C O N F I D E N T I A L ABU DHABI 00634

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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 000634

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E.O. 12958: DECL: 02/12/2014
TAGS: [EPET](#) [ENRG](#) [ECON](#) [IR](#) [TC](#)
SUBJECT: EB ASSISTANT SECRETARY WAYNE MEETS WITH UAE ENERGY
MINISTER

REF: DUBAI 265

Classified By: Ambassador Michele Sison for reasons 1.4 (b) and (d)

11. (C) Summary: UAE Energy Minister Al-Hamili told visiting A/S Wayne that the UAE would be adding 200,000 barrels of production capacity in 2005. He explained that the UAE decision to buy gas from Qatar was one of price. In response to A/S Wayne's questions about reported Iranian-UAE gas purchase deals, Al-Hamili explained that the UAEG had a contract with Crescent to purchase Sharjah gas. However, given the shared nature of the offshore Mubarak field and Crescent's concession, he didn't know whether Crescent was actually selling it any Iranian gas. End Summary.

12. (C) Assistant Secretary for Economic and Business Affairs Tony Wayne met with UAE Energy Minister Mohammed bin Dha'en Al-Hamili on February 7. Ambassador and Econchief (notetaker) attended the meeting.

OPEC and Oil Supplies

13. (SBU) A/S Wayne thanked Al-Hamili for the UAE's efforts to keep oil markets well supplied over the last year. Al-Hamili explained that the UAE (and OPEC) wanted to assure the market that it would continue to supply oil and would make up for any disruptions. He noted that prices were "not entirely" under OPEC control, citing geopolitics and speculation as contributing factors. He added that OPEC was concerned about stock build-ups in the second quarter of the year, but believed that it was premature to cut the quota.

14. (SBU) Al-Hamili noted that outgoing Secretary of Energy Spencer Abraham had called him to thank him for the UAE's positive steps during the last OPEC meeting. A/S Wayne said that incoming Energy Secretary Bodman would undoubtedly also like to meet with and talk to Al-Hamili.

15. (SBU) A/S Wayne agreed that uncertainty negatively affected the energy market, noting that it was difficult to determine exactly how big a role speculation played. For that reason, he stressed it was important for experts from both producer and consumer countries to talk to understand how each calculated their supply and demand equations. Al-Hamili said that the IEA was constantly in contact with OPEC and he thought that the IEA appreciated OPEC's efforts. He agreed that it was important to establish a producer-consumer dialogue. He noted that "paper barrels" (i.e., futures and options) traded were four times actual physical barrels being traded.

Capacity Building

16. (C) Noting that demand had risen close to capacity, A/S Wayne asked Al-Hamili for the UAE's expansion plans. Al-Hamili said that the UAE planned to increase its spare capacity. He noted that the UAE always had some spare sustainable capacity, but that recent events had cut into it. Al-Hamili noted that the UAE could produce an additional 200,000 barrels per day above its sustainable capacity (2.5 mb/d) if it flared gas, but that Abu Dhabi government policy prohibited ADNOC from flaring gas. He added that the UAE would be adding 200,000 barrels of capacity in 2005. He noted, however, that it was expensive to add spare capacity, and that the UAE's foreign equity partners wanted to see the capacity utilized and get a return on their investment. He added that the UAE shared this view. Noting that consuming countries were calling for alternative energy and increased conservation, he asked rhetorically what producers would do with their spare capacity.

17. (C) A/S Wayne asked about UAE plans to expand natural gas production. Al-Hamili explained that UAE natural gas was high in sulfur and the UAE needed to invest in desulphurization units. The UAE uses its natural gas for injection and as a feed stock for power generation and desalinization. Al-Hamili said that the Ministry of Energy was currently using a mixture of gas and diesel for power generation and the Emirate of Abu Dhabi was currently subsidizing the diesel feed stock costs for federal power generation by one billion dirhams. He added that buying gas from abroad was a question of economics. If foreign gas (i.e., Qatar) was cheaper, it allowed the UAE to use its own gas for reservoir management. He pointed to Iraq as an example of poor reservoir management. He opined that the quality of Iraqi crude was worse than it was 20 years previously, because the Iraqis had not invested in it. (Note: The majority Abu Dhabi owned Dolphin project is a \$3.5 billion project to bring in gas via pipeline from Qatar.)

18. (C) In response to A/S Wayne's question about Abu Dhabi's plans to tender a 28% stake in the Upper Zakum field, Al-Hamili said that he thought the process would be coming to a close. He noted that the field was complex and that Abu Dhabi was less concerned with revenues than it was with technology and technology transfer. He said that the field currently produced at 550,000 barrels per day and he thought it could go to 1 mb/d without exhausting the field.

Iranian Gas

19. (C) A/S Wayne asked Al-Hamili about Crescent Petroleum's reported deal to purchase Iranian gas. Al-Hamili acknowledged that his predecessor had signed a contract with Crescent Petroleum in the Emirate of Sharjah for the Federal Electricity and Water Administration (FEWA) to purchase gas from Crescent out of the offshore Mubarak field. He stressed that the UAEG did not have a contract with Iran to purchase gas. The problem, he explained was that the Mubarak field, which lies near the Iranian-controlled, and UAE claimed, island of Abu Musa, is shared by Iran and Sharjah. FEWA had signed a contract for gas from Sharjah, but Crescent's concession crosses into Iran. (Note: Each emirate in the UAE

controls its own oil and gas resources. End Note.)
Al-Hamili said that he saw Crescent's gas as a short term
solution and the Dolphin project as the longer run solution.

¶10. (C) Al Hamili said that the Iranians did not have any
large fields near Abu Musa. Most of their gas was further
north. He explained that he had talked to a Total
representative about Iran, who had told him that Iran was
using its gas domestically. It had shortages over the
winter, when it needed gas for heating but a surplus in the
summer.

This cable has been cleared by Assistant Secretary Wayne.
SISON